



Press Release
S KANT HEALTHCARE LIMITED
January 17, 2025
Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	4.25	ACUITE A Stable Upgraded	-
Bank Loan Ratings	73.00	-	ACUITE A1 Upgraded
Total Outstanding Quantum (Rs. Cr)	77.25	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded its long-term rating to '**ACUITE A (read as ACUITE A)**' from '**ACUITE A- (read as ACUITE A minus)**' on the Rs.4.25 Cr. bank facilities and short-term rating to '**ACUITE A1**' (read as **ACUITE A one**) from '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs.73.00 Cr. bank facilities of S Kant Healthcare Limited (SKHL). The outlook is '**Stable**'.

Rationale for Upgrade

The rating upgrade takes into account the significant improvement in SKHL's scale of operations in FY2024, its established track record of operations, and extensive experience of the management of more than five decades in the pharmaceutical industry. Further, it reflects SKHL's healthy financial risk profile with healthy debt protection metrics, low gearing levels, healthy debt coverage indicators and a strong liquidity position. The improvement in operating income is led by market demand for antimalarial products, the introduction of a dermatology segment, and the company has manufactured new products with a life of another 10 years with advanced medicine. The company's revenue grew by ~53 percent to Rs. 454.34 Cr. in FY2024 against the previous year. Further, the EBITDA margin improved and stood at 23.35 percent in FY2024 as against 11.47 percent in FY2023, mainly due to an increased price realisations.

The rating, however, remains constrained on account of working capital-intensive nature of operations, susceptibility of profitability to volatility in raw material prices, and exposure to regulatory risk.

About the 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 (APIs). The company has a registered office in Worli, Mumbai, and a manufacturing unit in Vapi, Gujarat.

Unsupported Rating

Not applicable

Analytical Approach

Acuite has considered the standalone business and financial risk profile of SKHL to arrive at the rating.

In the past rating review's, Acuite had taken a consolidated view of S Kant Healthcare Limited (SKHL) and S K Age Export (SKAE) referred to as the S K Group. The de-consolidation is as per the management request.

Key Rating Drivers

Strengths

Established track record and experienced management

SKHL 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. It 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. SKHL is engaged in the manufacturing of antimalarial drugs and various active pharmaceutical ingredients (APIs) and the dermatology segment. The company has a registered office in Worli, Mumbai, and a manufacturing unit in Vapi, Gujarat.

Significant growth in scale of operations

The company has reported significant growth in revenues of 52.57 percent in FY2024 to Rs.454.34 Cr. as against Rs.297.80 Cr. in FY2023, which is primarily led by increased market demand for antimalarial products, the introduction of the dermatology segment, and the company manufacturing new products with a life of another 10 years with advanced medicine. Further, the EBITDA margin improved and stood at 23.35 percent in FY2024 as against 11.47 percent in FY2023. The margin improved FY2024 mainly due to improved price realizations in anti-material products and the dermatology segment. Acuité believes the company is expected to maintain healthy operating performance in the near term.

Healthy financial risk profile

The company's financial risk profile is marked by a healthy net worth, low gearing, and healthy debt protection metrics. The net worth of the company stood at Rs. 184.92 Cr. and Rs. 118.85 Cr. as on March 31, 2024, and 2023, respectively. The gearing of the company stood low at 0.15 times as on March 31, 2024, as compared to 0.31 times as on March 31, 2023. The improvement in the gearing is because of a decrease in the short debt portion. Debt protection metrics—interest coverage ratio and debt service coverage ratio—are healthy, stood at 45.49 times and 33.84 times for FY2024, respectively, as against 23.12 times and 18.40 times in FY2023, respectively. TOL/TNW (total outside liabilities/total net worth) stood at 0.61 times and 0.96 times as on March 31, 2024 and 2023, respectively. The debt to EBITDA of the company stood healthy at 0.27 times as on March 31, 2024, as against 1.05 times as on March 31, 2023. It improved on account of an increase in absolute EBITDA in FY2024. Acuité believes that the financial risk profile is expected to be at similar levels over the medium term, considering no debt-funded expansion is planned in the near future.

Weaknesses

Working capital management intensive in nature

The company's working capital operations are intensive in nature, with gross current assets (GCA) at 170 days in FY2024 as against 200 days in FY2023. However, there is improvement in GCA days in FY2024 as compared to FY2023. Improvement is on account of improved inventory days. GCA days consist of cash and bank balances and OCA. Inventory days stood at 66 days in FY2024 as against 79 days in FY2023. The debtor day stood at 68 days in FY2024 as against 65 days in FY2023. Subsequently, the payable period stood at 92 days in FY2024 as against 120 days in FY2023, respectively. Further, the average bank limit utilization in the last eight months ended November 2024 remained at ~19 percent for fund-based limits.

Acuite believes that the ability of the company to improve its scale of operations without any significant elongations in the working capital cycle will be a key monitorable.

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

The company's profitability is susceptible to volatility in raw material prices and foreign exchange rates. The company exports a major portion of its output to the USA, Ghana, Uganda, and Nigeria, among others. However, the same is mitigated by selectively hedging its risk exposure. Further, the company is also exposed to the regulatory risk associated with the export of medical drugs to the USA, the UK, and African countries, among others.

Rating Sensitivities

- Sustainability of improvement in the scale of operations and profitability
- Deterioration in capital structure and other credit metrics due to any large, debt-funded capex
- Any elongation of the working capital cycle

Liquidity Position

Strong

SKHL liquidity is strong, marked by healthy net cash accruals against which the company has no repayment obligations. The company has generated healthy cash accruals of Rs. 76.66 Cr. in FY2024, against nil maturing debt obligations during the same period. Going forward, the company is expected to generate net cash accruals of Rs. 71-80 Cr. in FY 2025-26 against nil debt obligations. The company has maintained unencumbered cash and bank balances of Rs. 13.62 Cr, and the current ratio stood at 1.98 times as on March 31, 2024. The reliance on bank limits utilization stood low at ~19 percent for the fund-based limits for the past eight months

ending in November 2024. Acuité believes that SKHL's liquidity is likely to remain strong over the medium term, backed by healthy net cash accruals.

Outlook: Stable

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 24 (Actual)	FY 23 (Actual)
Operating Income	Rs. Cr.	454.34	297.80
PAT	Rs. Cr.	66.10	18.32
PAT Margin	(%)	14.55	6.15
Total Debt/Tangible Net Worth	Times	0.15	0.31
PBDIT/Interest	Times	45.49	23.12

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

Not applicable

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.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. Acuité'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
26 Oct 2023	Cash Credit	Long Term	4.25	ACUITE A- Stable (Reaffirmed)
	Letter of Credit	Short Term	6.00	ACUITE A2+ (Reaffirmed)
	Bank Guarantee (BLR)	Short Term	0.50	ACUITE A2+ (Reaffirmed)
	Post Shipment Credit	Short Term	65.00	ACUITE A2+ (Reaffirmed)
	Bank Guarantee (BLR)	Short Term	1.50	ACUITE A2+ (Reaffirmed)
05 Aug 2022	Cash Credit	Long Term	4.25	ACUITE A- Stable (Assigned)
	Bank Guarantee (BLR)	Short Term	0.50	ACUITE A2+ (Upgraded from ACUITE A4)
	Bank Guarantee (BLR)	Short Term	1.00	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	6.00	ACUITE A2+ (Upgraded from ACUITE A4)
	Bank Guarantee (BLR)	Short Term	0.50	ACUITE A2+ (Upgraded from ACUITE A4)
	Post Shipment Credit	Short Term	21.50	ACUITE A2+ (Upgraded from ACUITE A4)
	Post Shipment Credit	Short Term	43.50	ACUITE A2+ (Assigned)
02 Mar 2022	Post Shipment Credit	Short Term	2.00	ACUITE A4 (Downgraded & Issuer not co-operating* from ACUITE A4+)
	Bank Guarantee (BLR)	Short Term	0.50	ACUITE A4 (Downgraded & Issuer not co-operating* from ACUITE A4+)
	Bills Discounting	Short Term	8.00	ACUITE A4 (Downgraded & Issuer not co-operating* from ACUITE A4+)
	Letter of Credit	Short Term	6.00	ACUITE A4 (Downgraded & Issuer not co-operating* from ACUITE A4+)
	Bills Discounting	Short Term	5.00	ACUITE A4 (Downgraded & Issuer not co-operating* from ACUITE A4+)
	Bank Guarantee (BLR)	Short Term	0.50	ACUITE A4 (Downgraded & Issuer not co-operating* from ACUITE A4+)
	Proposed Short Term Bank Facility	Short Term	6.50	ACUITE A4 (Downgraded & Issuer not co-operating* from ACUITE A4+)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Complexity Level	Rating
Union Bank of India	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	0.50	Simple	ACUITE A1 Upgraded (from ACUITE A2+)
HDFC Bank Ltd	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	1.50	Simple	ACUITE A1 Upgraded (from ACUITE A2+)
Union Bank of India	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	4.25	Simple	ACUITE A Stable Upgraded (from ACUITE A-)
Union Bank of India	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	6.00	Simple	ACUITE A1 Upgraded (from ACUITE A2+)
HDFC Bank Ltd	Not avl. / Not appl.	Post Shipment Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	65.00	Simple	ACUITE A1 Upgraded (from ACUITE A2+)

Contacts

Mohit Jain Senior Vice President-Rating Operations	Contact details exclusively for investors and lenders
Moparathi Anuradha Devi Senior Analyst-Rating Operations	Mob: +91 8591310146 Email ID: analyticalsupport@acuite.in

About Acuité Ratings & Research

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