Press Release

Scott Edil Pharmacia Limited

April 20, 2021

Rating reaffirmed and assigned

Total Bank Facilities Rated*	Rs. 111.18 Cr. (Enhanced from Rs.85.00 Crore)
Long Term Rating	ACUITE A-/Stable (Reaffirmed and assigned)
Short Term Rating	ACUITE A2+ (Reaffirmed)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed and assigned the long-term rating of **'ACUITE A-' (read as ACUITE A minus)** and the short term rating of **'ACUITE A2+' (read as ACUITE A two plus)** on the Rs.111.18 Crore bank facilities of Scott Edil Pharmacia Limited. The outlook is **'Stable'**.

About the Company

Himachal Pradesh based, Scott Edil Pharmacia Limited (SEPL) was incorporated in 2003 by Mr. B. K. Agarwal, Mr. Sanjeev Agarwal and Mrs. Vaishali Agarwal. The company is engaged in the manufacturing of generic drugs, ointments, ophthalmic drops, syrups, injections and among other pharmaceutical products.

About the group

Scott Edil Group (SEG) comprises of Scott Edil Pharmacia Limited (SEPL) and Scott Edil Advance Research Laboratories & Education Limited (SEARLE). The group is promoted by Mr. B.K. Agarwal, Mr. Sanjeev Agarwal and Mrs. Vaishali Agarwal. The group is engaged in the manufacturing of generic drugs, eye drops, syrups, capsules, tablets and medicinal ointments with its manufacturing facilities at Baddi, Himachal Pradesh. The group markets its products under 485 brands through a pan-India distribution network of authorized distributors and stockiest. SEG also undertakes contract manufacturing for marquee players like Abbott Healthcare Limited, Alembic Pharmaceuticals Limited and Lupin Limited among others and also caters to central government institutions. Further, the group also caters to the export market to countries like Sri Lanka, Turkey, Jordan, Afghanistan, Iran, and Panama, among others.

Analytical Approach

Acuité has taken a consolidated view of the financial and business risk profiles of Scott Edil Pharmacia Limited (SEPL) Scott Edil Advance Research Laboratories & Education Limited (SEARLE) together referred as Scott Edil Group (SEG). The consolidation is on account of the common management, similarities in the line of business and presence of significant operational and business synergies.
Change in analytical approach- During the last review, the team has also considered the business and financial risk profile of another group company i.e. Ion Healthcare Private Limited (IHPL) in the group consolidation. However, IHPL has been parted away from the group and currently have no association with group. Extent of Consolidation: Full

Key Rating Drivers

Strengths

- **Established track record of operation and established relationship with its reputed clientele**

Scott Edil Group (SEG) was promoted by Mr. B.K. Agarwal who has been associated with the pharmaceutical business for over four decades. Prior to the incorporation of SEG, Mr. B.K. Agarwal and his family was engaged in the retail chain of pharmacies in Punjab region. SEG is present across 24 states in India via a network of distributors and stockiest. The group has wide variety of around 485 generic drug brands in its product portfolio that contributed approximately ~45 per cent of total revenues of the group in FY2020. SEG also caters to a wide range of reputed industrial clients. SEG undertakes contract manufacturing of both generic and patented drugs for players like Lupin Limited, Alembic Pharmaceuticals Ltd, Cipla Limited, Abbott Healthcare Limited and several others. In FY2020, contract manufacturing accounted for ~18 per cent of the total revenue. Further, the group also caters to state and central government to health departments, public dispensaries, government funded hospitals and. SEG supplies essential drugs and pharmaceutical combinations to these institutions – both to meet their day-to-day demand and under specific health schemes of the central and state governments. Sales to such institutions contributed ~11 per cent to the total revenue in FY2020. SEG also exports its products which contributes to ~26 per cent of total revenues. The group exports to countries like Sri Lanka, Turkey, Jordan, Afghanistan, Iran, and Panama, among others. However, in the current year, the export sales have increased to ~38 per cent of total sales till 11MFY2021.

Acuité believes that the group will continue to benefit from its experienced management and established relations with its reputed clientele.

- **Healthy financial risk profile and Improvement in operating income and profitability**

Group's financial risk profile remained healthy marked by high net worth, strong gearing and moderate debt protection metrics. The net worth of the group stood at Rs.177.51 Crore as on 31 March 2020 as against Rs.175.20 Crore as on 31 March 2019. The gearing level (debt-equity) stood at 0.69 times as on 31 March 2020 as against 0.77 times as on 31 March 2019. The total debt of Rs.122.78 Crore as on 31 March 2020 consists of secured loan of Rs.18.70 Crore, unsecured loan of Rs.3.27 Crore and working capital borrowings of Rs.100.81 Crore. The interest coverage ratio (ICR) stood moderate at 1.72 times in FY2020 as against 2.32 times in FY2019. NCA/TD (Net Cash Accruals to Total Debt) ratio stood at 0.06 times in FY2020 as against 0.15 times in FY2019.

While in FY2020, the group witness a substantial decline in its operating performance as the operating income stood at Rs.474.71 Crore in FY2020 as against Rs.482.67 Crore in FY2019. The profitability reduced substantially as the EBITDA Margins significantly declined to 4.77 percent for FY2020 as against 7.27 percent in FY2019. The PAT margin declined to 0.51 percent in FY2020 from 3.12 percent in FY2019. This is mainly due to increase in raw material cost as the group wasn't able to import the raw material from countries like China and the increase in selling cost.

However, in the current financial year, the group have performed well and achieved a revenue of Rs.495.00 Crore as on 28th February 2021. There is also an improvement in margins as the EBITDA and PAT margins stood at 5.41 and 1.46 percent respectively in 11MFY2021.

Acuité believes that the financial risk profile of the group will remain healthy on account of healthy cash accruals and in absence of any major debt funded capex. Further, the company has a healthy order book position, thereby giving a healthy revenue visibility over the near to medium term.

Weaknesses

- **Intensive working capital operation**

The working capital management of the group is intensive in FY2020 marked by Gross Current Assets (GCA) of 257 days in FY2020 as against 184 days in FY2019. The inventory and debtor levels stood at 91 days and 140 days in FY2020 as against 97 and 79 days in FY2019, respectively. The creditor days stood at 166 days in FY2020 as against 74 days in FY2019. This was mainly due to disruption in the operation caused by covid-19 lockdown. As a result, the average utilization of bank limits stood high at ~98 per cent in the last six months ending February, 2021. However, as of 28th February, 2021 the GCA days comes down to 178 days with the debtor and inventory days are on 87 and 91 respectively.

Acuité believes that the working capital requirements will continue to remain intensive over the medium term on account of high inventory and debtor days.

- **Intense competition and regulated pharmaceutical industry**

The group is exposed to intense competition from organized and unorganized players. However, SEG has more than a decade experience and has been able to establish itself in the Indian pharmaceutical industry. Further, SEG is exposed to regulatory risk in the domestic as well as overseas (Middle East, African and European countries) markets. However, the same is mitigated to an extent since the company has been dealing with these countries for more than five years.

Rating sensitivity

- Improved performance in the current financial year.
- Intensive working capital nature of operation

Material Covenant

None

Liquidity position: Adequate

The group has adequate liquidity marked by high net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.7.58 Crore in FY2020 as against CPLTD of Rs.7.29 Crore for the same period. The cash accruals of the group are estimated to remain in the range of around Rs.13.03 Crore to Rs.22.41 Crore during FY2021-23 against CPLTD of ~Rs.5.50 Crore each year for the same period. Group's working capital operations are intensive marked by Gross Current Asset (GCA) days of 257 days in FY2020. As a result, the average utilization of bank limits stood high at ~98 per cent in the last six months ending February, 2021. Group maintains unencumbered cash and bank balances of Rs.0.25 Crore as on 31 March 2020. The current ratio stands at 1.10 times as on 31 March 2020.

Outlook: Stable

Acuité believes SAG 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.

About the Rated Entity - Key Financials (Consolidated)

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	474.71	482.67
PAT	Rs. Cr.	2.44	15.06
PAT Margin	(%)	0.51	3.12
Total Debt/Tangible Net Worth	Times	0.69	0.77
PBDIT/Interest	Times	1.72	2.32

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm
- 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

Note on complexity levels of the rated instrument

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

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
21-January-2020	Cash Credit	Long Term	45.00	ACUITE A-/Stable

				(Reaffirmed)
	Working Capital Demand Loan	Long Term	30.00	ACUITE A-/Stable (Reaffirmed)
	Letter of Credit	Short Term	10.00	ACUITE A2+ (Reaffirmed)
27-December-2019	Cash Credit	Long Term	45.00	ACUITE A- (Indicative)
	Working Capital Demand Loan	Long Term	30.00	ACUITE A- (Indicative)
	Letter of Credit	Short Term	10.00	ACUITE A2+ (Indicative)
08-October-2018	Cash Credit	Long Term	45.00	ACUITE A-/Stable (Upgraded)
	Working Capital Demand Loan	Long Term	30.00	ACUITE A-/Stable (Upgraded)
	Letter of Credit	Short Term	10.00	ACUITE A2+ (Upgraded)
	Letter of Credit	Short Term	15.00	ACUITE A2+ (Withdrawn)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	44.00	ACUITE A-/ Stable (Reaffirmed)
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	3.67	ACUITE A-/ Stable (Assigned)
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	8.80	ACUITE A-/ Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A-/ Stable (Reaffirmed)
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	1.25	ACUITE A-/ Stable (Assigned)
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE A-/ Stable (Reaffirmed)
Term Loan	May-2017	8.75%	May-2025	11.96	ACUITE A-/ Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.50	ACUITE A2+ (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2+ (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2+ (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President - Corporate Ratings Tel: 022-49294041 aditya.gupta@acuite.in Aditya Singh Ratings Analyst - Rating Operations Tel: 011-49731303 aditya.singh@acuite.in	Varsha Bist Senior Manager – Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

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