

Press Release

Scott Edil Pharmacia Limited

July 14, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.50	-	ACUITE A2+ Reaffirmed
Bank Loan Ratings	100.68	ACUITE A- Negative Reaffirmed Stable to Negative	-
Total Outstanding Quantum (Rs. Cr)	111.18	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed 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 revised from '**Stable**' to '**Negative**'.

Reason for revision in Outlook

The outlook has been revised due to the company's short-term liquidity cushion being strained, as seen by the high limit of use. The group, over the time has reduced its working capital limits from one lender, and replaced the facilities with the existing lenders. Thus, the replacement of revolving facilities resulted into higher limit utilization.

The rating has been reaffirmed taking cognizance of improvement in revenues in FY 2022, healthy financial risk profile of the group and improvement in working capital management. The revenue has improved by 18% to Rs. 505.56 Cr in FY 2022 (Provisional) due to the increased focus on the exporting segment. The financial risk profile remained healthy on the back of strong net worth and comfortable gearing. The group has improved its working capital management in the current year, however it remaining moderately intensive. Going forward, the utilization of working capital limits and improvement in profitability margins of the company will remain key rating factors.

About Company

Based in Himachal Pradesh, Scott Edil Pharmacia Limited (SEPL) was incorporated in 2003 by Mr. B. K. Agarwal, Mr. Sanjeev Agarwal and Mrs. Vaishali Agarwal. The company manufactures generic medications, as well as pharmaceutical items like injections, syrups, ointments, and eye drops.

About the Group

Scott Edil Group (SEG) comprises of Scott Edil Pharmacia Limited (SEPL), and Scott Edil Advance Research Laboratories & Education Limited (SEARLEL). The group is promoted by Mr.

B.K. Agarwal, Mr. Sanjeev Agarwal and Mrs. Vaishali Agarwal, which concerns primarily in the manufacturing of generic drugs, eye drops, syrups, capsules, tablets and medicinal ointments from 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. Additionally, it has its exporting business in Yemen, Turkey, Jordan, Afghanistan, Iran, and Panama, among the others.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

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 (SEARLEL) 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.

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 ~40 per cent of total revenues of the group in FY 2022. 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, Abbott Healthcare Limited and several others. In FY 2022, contract-manufacturing accounted for 15 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 it 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 ~10 per cent to the total revenue in FY 2022. The group exports to countries like Sri Lanka, Turkey, Jordan, Afghanistan, Iran, and Panama, among the others. In the current year, the export sales have increased to 35 per cent of total sales in FY 2022. 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

The group's financial risk profile remains healthy marked by high net worth, comfortable gearing and moderate debt protection metrics. The net worth of the group stood at Rs. 167.53 Cr in FY 2022 (Provisional) as against Rs. 157.24 Cr in FY 2021 (Audited). Debt to Equity ratio improved from 0.79 times in FY 2021 to 0.68 times in FY 2022 on account of decline in working capital borrowings due to moderation of working capital requirements. The total debt of Rs. 114.06 Cr in FY 2022 consists of Rs. 23.11 Cr of long term debt, Rs. 4.05 Cr of unsecured loans, Rs. 77.50 Cr of short term borrowings and Rs. 9.40 Cr of CPLTD. Interest Coverage ratio has improved from 2.00 times in FY 2021 to 2.85 times in FY 2022 while DSCR improved from 1.19 times in FY 2021 to 1.27 times in FY 2022. NCA/TD has also improved from 0.09 times in FY 2021 to 0.13 times in FY 2022. The Group has achieved revenue of Rs. 429.14 Cr

in FY 2021 (Audited) and experienced decline of 10% from FY 2020 wherein the group achieved revenue of Rs. 474.68 Cr. The decline in income was a result of disruptions created by Covid 19 pandemic wherein the sales in domestic market specifically in Generic branded drugs, Contract manufacturing and Institutional business segments went down while the group improved export sales but overall the revenue experienced dip in FY 2021. However as per FY 2022 (Provisional) the group's operating income has improved by 17.92% to Rs. 505.56 Cr on the back of further increase in export business segment and improvement in other segments. The group has improved profitability in the last two years. EBITDA margin has improved from 4.77% in FY 2020 to 6.45% in FY 2021 (Audited) and moderated to 5.96% in FY 2022 (Provisional). PAT margin has improved from 0.51% in FY 2020 to 1.41% in FY 2021 (Audited) and further improved to 1.93% in FY 2022 (Provisional). 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.

Weaknesses

Intensive working capital operation

The operations of the group are moderately working capital intensive marked by GCA days of 166 in FY 2022 (Provisional). GCA days in FY 2021 (Audited) stood at 186 with marked improvement from 219 days in FY 2020. The condensed cycle is a result of decline in inventory days and debtor days. Inventory holding period has declined from 91 days in FY 2020 to 83 days in FY 2021 and further dipped to 65 days in FY 2022. The decline in inventory is a result of increased focus of the group on export sales. Since the company fetches better margins in export sales hence the overall inventory needed for the same volume of products as compared to domestic sales is lower in export sales hence the low level of inventory. For debtor realization period which has declined from 119 days in FY 2020 to 83 days in FY 2021 and 68 days in FY 2022, the improved realization is on account of increase in export sales wherein the company receives payment from its customers either on advance basis or the payment is backed by LC of 90 days resulting in timely payments. Since the payment cycle has improved this has resulted in reduced creditor days which declined from 132 days in FY 2020 to 84 days in FY 2021 and remained at 84 days in FY 2022. Average bank limit utilization in Scott Edil Pharmacia Limited between April 2021 and May 2022 stood at 92.06% while limit utilization in Scott Edil Advance Research Laboratories & Education Limited between April 2021 and May 2022 stood at 97.28%.

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 Sensitivities

- Buffer in working capital limits.
- Improvement in coverage indicators.
- Improvement in scale of operations.

Material Covenants

None.

Liquidity Position Adequate

The group has adequate liquidity when comparing the net cash accruals to its maturing debt obligations. The group has generated NCA of Rs. 15.06 Cr against CPLTD of Rs. 9.40 Cr in FY 2022. Going forward the group is expected to generate NCA of Rs. 17.83 Cr and Rs. 19.49 Cr in FY 2023 and FY 2024 against CPLTD of Rs. 9.74 Cr and Rs. 8.70 Cr in each respective years. Group had maintained unencumbered cash and bank position of Rs. 0.54 Cr and current ratio of 1.32 times in FY 2022. The investment of Rs. 18.42 in FY 2022 is almost entirely lien marked

as margin money for non-fund based facilities. However Average bank limit utilization in Scott Edil Pharmacia Limited between April 2021 and May 2022 stood at 92.06% while limit utilization in Scott Edil Advance Research Laboratories & Education Limited between April 2021 and May 2022 stood at 97.28%. Such high utilization of working capital limits has constrained the short term liquidity buffer.

Outlook : Negative

Acuité believes that SEG will continue to benefit over the medium term due to its experienced management and established track record. 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 buffers in their working capital limits. The outlook may be revised to 'Stable' in case of sustained improvement in revenues and net cash accruals while maintaining adequate buffers in their working capital limits.

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	505.56	429.14
PAT	Rs. Cr.	9.77	6.06
PAT Margin	(%)	1.93	1.41
Total Debt/Tangible Net Worth	Times	0.68	0.79
PBDIT/Interest	Times	2.85	2.00

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

CARE vide its press release dated 02 August 2021, has mentioned the rating of Scott Edil Pharmacia Limited as '[CARE]BB+/Stable/A4' Issuer Not Cooperating as on 02 August 2021.

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
20 Apr 2021	Letter of Credit	Short Term	5.50	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	5.00	ACUITE A2+ (Reaffirmed)
	Working Capital Demand Loan	Long Term	1.25	ACUITE A- Stable (Assigned)
	Working Capital Demand Loan	Long Term	11.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	11.96	ACUITE A- Stable (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A2+ (Reaffirmed)
	Working Capital Demand Loan	Long Term	3.67	ACUITE A- Stable (Assigned)
	Working Capital Demand Loan	Long Term	8.80	ACUITE A- Stable (Assigned)

	Cash Credit	Long Term	44.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	15.00	ACUITE A- Stable (Reaffirmed)
21 Jan 2020	Working Capital Demand Loan	Long Term	30.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	45.00	ACUITE A- Stable (Reaffirmed)
	Letter of Credit	Short Term	10.00	ACUITE A2+ (Reaffirmed)
27 Dec 2019	Working Capital Demand Loan	Long Term	30.00	ACUITE A- (Issuer not co-operating*)
	Cash Credit	Long Term	45.00	ACUITE A- (Issuer not co-operating*)
	Letter of Credit	Short Term	10.00	ACUITE A2+ (Issuer not co-operating*)
08 Oct 2018	Cash Credit	Long Term	45.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Letter of Credit	Short Term	10.00	ACUITE A2+ (Upgraded from ACUITE A2)
	Letter of Credit	Short Term	15.00	ACUITE A2+ (Withdrawn)
	Working Capital Demand Loan	Long Term	30.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
20 Jul 2017	Cash Credit	Long Term	60.00	ACUITE BBB+ Stable (Assigned)
	Letter of Credit	Short Term	25.00	ACUITE A2 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	44.00	ACUITE A- Negative Reaffirmed Stable to Negative
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A- Negative Reaffirmed Stable to Negative
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.50	ACUITE A2+ Reaffirmed
Bank of Baroda	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2+ Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	7.48	ACUITE A- Negative Reaffirmed Stable to Negative
HDFC Bank Ltd	Not Applicable	Term Loan	31-05-2017	8.75	31-05-2024	11.96	ACUITE A- Negative Reaffirmed Stable to Negative
Bank of Baroda	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	1.25	ACUITE A- Negative Reaffirmed Stable to Negative
State Bank of India	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	3.67	ACUITE A- Negative Reaffirmed Stable to

							Negative
State Bank of India	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	8.80	ACUITE A- Negative Reaffirmed Stable to Negative
State Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	4.39	ACUITE A- Negative Reaffirmed Stable to Negative
Bank of Baroda	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	1.40	ACUITE A- Negative Reaffirmed Stable to Negative
Bank of Baroda	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	2.73	ACUITE A- Negative Reaffirmed Stable to Negative

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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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