



Press Release
Scott Edil Pharmacia Limited
October 06, 2023
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	76.18	ACUITE A- Stable Reaffirmed Negative to Stable	-
Bank Loan Ratings	35.00	-	ACUITE A2+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	111.18	-	-

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 to **'Negative' to 'Stable'**.

Rationale for Rating Action

The rating action takes into account the Improved business risk profile of the group marked by established business operations with experienced management. The revenue from operations of the group witnessed improvement which is apparent from growth in revenue from operations by ~26% in FY2023 (Prov.) to 636.82 crore as against Rs. 506.32 crore for FY2022. The operating profit margin of the group improved by 53 bps in FY 23. Operating Profit Margin of group stood at 6.37% in FY2023(Prov.) as against 5.84% in FY2022 likewise the net profit margin of the group increased by 63 bps and stood at 2.73 percent in FY2023(Prov.) as against 2.13 percent in FY 22. Further Working capital operations of the group improved in FY 23(Prov) in comparison to FY 22 and lower bank limit utilization in comparison to last year. Coupled to this coverage indicators improved in FY 23(Prov.)

The rating further draws comfort from the adequate liquidity position of the group. The group reported net cash accruals of Rs. 25.12 crore in FY2023 (Provisional) as against Rs. 9.40 crore of matured debt obligations during the same period. The rating is however constrained on account of working capital intensive nature of operations. Acuite believes that the group's ability to grow its scale of operations and profitability while maintaining a healthy capital structure and improvement in working capital operation remains a key rating indicator.

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 (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 Yemen, Turkey, Jordan, Afghanistan, Iran, and Panama, among others.

Consolidated 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 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.

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. SEG also caters to a wide range of reputed industrial clients. SEG undertakes contract-manufacturing of both generic and patented drugs for players. 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.

Business risk profile

Scott Edil Group's operation witnessed improvement which is apparent from growth in revenue from operations by ~26% in FY2023 (Prov.) to 636.82 crore as against Rs. 506.32 crore for FY2022. The operating profit margin of the company improved by 53 bps in FY 23. Operating Profit Margin of group stood at 6.37% in FY2023(Prov.) as against 5.84% in FY2022 likewise the net profit margin of the group increased by 63 bps and stood at 2.73 percent in FY2023(Prov.) as against 2.13 percent in FY 22. ROCE of the group stood at 11.25 times in FY2023(Prov.).

Group has achieved the operating income of Rs ~185 crore in Q1 FY 24. Group is expected to achieve the operating income of Rs ~750 crore. Further Net cash accruals are expected Rs 30 to 36 crore in near medium term. Group currently has Rs ~147 crore orders in hand.

Financial Risk Profile –Healthy

The group has healthy financial risk profile marked by strong net worth, comfortable gearing and coverage indicators. The Total Tangible net worth stood at Rs. 185.63 Cr as on 31st March 2023(Prov.) as against Rs. 168.12 Cr a year earlier.

Group follows conservative leverage policy. Debt to Equity ratio witnessed minuscule

decrease of 6 bps and stood at 0.60 times in FY 2023(Prov.) as against 0.66 times in FY 22. Improvement is on account of profits accretions. Going forward gearing is expected to improve in near medium term.

Further, the interest coverage ratio improved by 71 bps and stood comfortable at 3.53 times for FY2023 (Prov.) as against 2.82 times in FY2022. Likewise, Debt Service coverage ratio increased by 43 bps and stood at 1.75 times for FY2023 (Prov.) as against 1.32 times in FY2022. Improvement in coverage ratio is on account of improvement in operating margin and increase in operating income. Going forward coverage indicators are expected to improve in near medium term.

Total outside liabilities to total net worth (TOL/TNW) stood at 1.26 times as on FY2023 (Prov.) vis-à-vis 1.31 times as on FY2022. Debt-EBITA decreased and stood at 2.74 times as on 31st March 2023(Pro.) as against 3.71 times as on 31st March 2022. The Net Cash Accruals to Total debt stood at 0.23 times as on FY2023 (Prov.) and 0.14 times for FY2022. The financial risk profile of the company is expected to improve and remain comfortable in medium terms, as the company do not have any large capex plan in the medium term.

Weaknesses

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.

Working capital operations- High

Group has improved yet high working capital requirements as evident from gross current assets (GCA) of 145 days in FY2023(Prov.) as compared to 166 days in FY2022. Intensiveness of Working capital is on account of High Inventory and Receivable Days. Debtor days stood at 52 days in FY2023 (Prov.) as against 71 days in FY 22. Inventory days stood same as in last year at 64 days in FY 23 (Prov.). Working capital limits are utilized at ~92 per cent during the last twelve months ended June 23. Debtor days improved due to increase in the share of export sale in total sale in FY 23.

Rating Sensitivities

Improvement in Working capital operation resulting better liquidity

Improvement in Operating income and profitability

Improvement in Financial Risk Profile and lower reliance on working capital limit

All Covenants

None

Liquidity Position

Adequate

Group has adequate liquidity marked by net cash accruals to its maturing debt obligations, current ratio, cash and bank balance. Group generated cash accruals of Rs. 25.12 crore for FY2023 (Prov.) as against debt repayment obligations of Rs. 9.40 crores for the same period. Current Ratio stood at 1.32 times as on 31 March 2023(Prov.) as against 1.33 times in the previous year. Working capital limits are utilized at ~ 92 per cent during the last twelve months ended June 23. Cash and Bank Balances of company stood at Rs 8.48 crores coupled to this group maintains unencumbered fixed deposits of Rs 10 to 11 crore. The liquidity of the group is expected to improve with group expected to generate cash accruals in the range of Rs. 30 to 36 Cr. with debt obligation of Rs ~10 crore will also support the liquidity of the company.

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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	636.82	506.36
PAT	Rs. Cr.	17.37	10.81
PAT Margin	(%)	2.73	2.13
Total Debt/Tangible Net Worth	Times	0.60	0.66
PBDIT/Interest	Times	3.53	2.82

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, Acuite 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
14 Jul 2022	Working Capital Term Loan	Long Term	4.39	ACUITE A- Negative (Reaffirmed)
	Working Capital Demand Loan	Long Term	8.80	ACUITE A- Negative (Reaffirmed)
	Working Capital Demand Loan	Long Term	1.25	ACUITE A- Negative (Reaffirmed)
	Letter of Credit	Short Term	5.00	ACUITE A2+ (Reaffirmed)
	Working Capital Term Loan	Long Term	2.73	ACUITE A- Negative (Reaffirmed)
	Working Capital Term Loan	Long Term	1.40	ACUITE A- Negative (Reaffirmed)
	Proposed Bank Facility	Long Term	7.48	ACUITE A- Negative (Reaffirmed)
	Cash Credit	Long Term	15.00	ACUITE A- Negative (Reaffirmed)
	Working Capital Demand Loan	Long Term	3.67	ACUITE A- Negative (Reaffirmed)
	Term Loan	Long Term	11.96	ACUITE A- Negative (Reaffirmed)
	Cash Credit	Long Term	44.00	ACUITE A- Negative (Reaffirmed)
	Letter of Credit	Short Term	5.50	ACUITE A2+ (Reaffirmed)
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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	44.00	ACUITE A- Stable Reaffirmed Negative to Stable
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE A- Stable Reaffirmed Negative to Stable
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE A2+ Reaffirmed
Bank of Baroda	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE A2+ Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.48	ACUITE A- Stable Reaffirmed Negative to Stable
Bank of Baroda	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	0.18	ACUITE A- Stable Reaffirmed Negative to Stable
State Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	3.09	ACUITE A- Stable Reaffirmed Negative to Stable
State Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	5.79	ACUITE A- Stable Reaffirmed Negative to Stable
State Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	4.38	ACUITE A- Stable Reaffirmed Negative to Stable
Bank of Baroda	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	1.40	ACUITE A- Stable Reaffirmed Negative

								to Stable
Bank of Baroda	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	1.86	ACUITE A- Stable Reaffirmed Negative to Stable

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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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