

Press Release

Ion Healthcare Private Limited

October 08, 2018

Rating Upgraded



Total Bank Facilities Rated*	Rs. 18.25 Cr.
Long Term Rating	ACUITE A- / Outlook: Stable (Upgraded from ACUITE BBB+/Stable)
Short Term Rating	ACUITE A2+ (Upgraded from ACUITE A2)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded long term rating to **Acuite A- (read as ACUITE A minus)** from '**ACUITE BBB+ (read as ACUITE triple B plus)**' and the short term rating to '**ACUITE A2+(read as ACUITE A two plus)**' from **Acuite A2 (read as ACUITE A two)** to the above mentioned bank facilities Ion Healthcare Private Limited (IHPL). The outlook is '**Stable**'.

The rating upgrade reflects improvement in group's business risk profile marked by improvement in profitability margins during FY2018 (Prov.). The revenue of the group stood at Rs. 626.24 crore in FY2018 (provisional) from Rs 600.37crore in FY2017. while, the operating profitability (EBITDA) margins improved by around 180 basis points to 9.57 per cent during 2017-18 (provisional) from 7.76 per cent in the previous year, on account of better realization from its new brands. The upgrade also reflects group's comfortable financial risk profile marked by healthy network, comfortable gearing and healthy debt protection metrics.

Ion Healthcare Private limited (IHPL) was incorporated in 2004 and subsequently acquired by Mr. B.K. Agarwal, Mr. Sanjeev Agarwal and Mrs. Vaishali Agarwal in 2014, Presently being controlled and managed by Sh. Atul Kumar Agrawal & Sh. Leela Krishna Varshney. IHPL is engaged in the manufacturing of generic drugs, ointments, ophthalmic drops, syrups, injections and other pharmaceutical products. The company has an installed capacity to produce 430 million tablets, 135 million capsules, 25 million syrups and 18 million ointments.

About the Group

Scott Edil Group (SEG) was established in 2003 with the incorporation of SEPL by the Agarwal family. The group is engaged in the manufacturing of capsules, tablets, syrups, liquid injection, dry injection, topical preparations and ophthalmic preparations. SEG has its manufacturing facilities located at Baddi, Himachal Pradesh. The group markets its products over 485 own brands through a Pan-India distribution network of authorized distributors and stockists. SEG also undertakes contract manufacturing for marquee players like Abbot Healthcare Limited (AHL), Alembic Pharmaceuticals, Zydus Healthcare Limited (ZHL), Wockhardt Limited and Lupin Limited among several others and also supplies pharmaceutical products to several state and central government institutions. SEG caters to the export market by supplying generic drugs and other products to institutional players and pharmaceutical companies in Sri Lanka, Nigeria, Philippines, Syria, Turkey, Jordan, Afghanistan, Iran, Panama among several others.

Analytical Approach

Acuite has taken a consolidated view of the financial and business risk profiles of Scott Edil Pharmacia Limited (SEPL) and Scott Edil Advance Research Laboratories & Education Limited (SEARLE). The consolidation is on account of the common management, similarities in the line of business and presence of significant operational and business synergies. Together these companies have been referred to as the Scott Edil Group (SEG).

Key Rating Drivers

Strengths

- **Experienced management**

SEG was promoted by Mr. Balram Krishan Agarwal who has been associated with the pharmaceutical sector

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for over four decades. Prior to the incorporation of SEPL, Mr. B.K. Agarwal and his family were engaged in running chain of pharmacies in Punjab.

SEG caters to a wide range of reputed industrial clients and also to state government health departments, public dispensaries, government funded hospitals and central government departments. 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. The sales to such institutions contributes ~25 per cent to the consolidated revenue in FY2018 (Provisional). The group also undertakes contract manufacturing of both generic and patented drugs for players like Lupin, Albemic, Cipla, Abbot and several others. In FY2018 (provisional), contract manufacturing accounted for ~25 per cent of the consolidated revenue. Sales from own brands accounted for ~35 per cent of the total sales. SEG has also recently ventured into the overseas pharmaceutical markets. Exports accounted for approximately 15 per cent of the consolidated revenues of the group in FY2018 (Provisional).

SEG reported a consolidated revenue of Rs. 626.24 crore in FY2018 (Provisional) as against Rs. 600.37 crore in FY2017. The group reported a Compounded Annual Growth Rate (CAGR) of 10 per cent in its consolidated revenue in the last four financial years the 2017-18. Acuite believes that the group will continue to benefit from its experienced management and established relations with its customers.

• **Healthy financial risk profile**

SEG's financial risk profile is marked by healthy net worth, low gearing and healthy debt protection measures. SEG's net worth is estimated to be comfortable at around Rs.193.96 crore as on March 31, 2018 (Provisional). The net worth has improved significantly from Rs.120.36 crore as on March 31, 2015 on account of healthy accretion to reserves. Acuite believes that the net worth of the group will remain in the range of Rs.200.00 crore to Rs.290.00 crore over the medium term backed by its healthy revenue growth and stable operating margins.

The leverage and coverage ratios continue to remain healthy. The gearing remained low at 0.81 times as on March 31, 2018 (Provisional) against 0.74 times as on March 31, 2017. The moderate profitability coupled with low gearing levels has resulted in healthy debt protection metrics, with interest coverage of 4.31 times and NCA/TD of 0.23 times. The TOL/TNW ratio however stood low at around 1.18 times as on March 31, 2018 (Provisional). In FY2018, the group generated net cash accruals of Rs.36.44 crore as against debt repayment obligation of Rs.7.83 crore. The net cash accruals are expected to improve to ~Rs.48.00 crore over the medium term on account of absence of any major debt funded capex. Acuite believes that the debt protection metrics will remain healthy on account of healthy revenue visibility and stable operating margins over the medium term.

Weaknesses

• **Intense competition**

The group is exposed to intense competition from organised and unorganised players in the pharmaceutical industry. However, the experience of the group and its promoters has helped SEG to establish itself in the Indian and international markets.

• **Margins susceptible to volatility in raw material prices foreign exchange fluctuation risk**

The margins are susceptible to volatility in raw material prices which have been uneven during the period under study. Raw material accounts for ~85 per cent of the total cost of sales. Thus, significant changes in raw material prices due to import pressure and over supply would have an impact on the margins.

SEG's operating margin stood at 9.57 per cent in FY2018 (Provisional) against 7.76 per cent in FY2017, 8.35 per cent in FY2016 and 9.50 per cent in FY2015.

• **Regulatory risks in the domestic and export markets**

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 group has been dealing with these countries for more than five years.

Outlook: Stable

Acuite believes that SEG will maintain a Stable outlook over the medium term on the back of its experienced management established presence in the industry and its healthy financial risk profile. The outlook may be revised to 'Positive' in case the group registers higher-than-expected growth in revenues while maintaining its profit margins. Conversely the outlook may be revised to 'Negative' in case of deterioration in the capital structure or liquidity position owing to significant debt funded capex or deterioration in its working capital cycle.

About the Rated Entity - Key Financials- Consolidated

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	626.24	600.37	550.44
EBITDA	Rs. Cr.	59.92	46.60	45.94
PAT	Rs. Cr.	25.34	18.00	16.02
EBITDA Margin	(%)	9.57	7.76	8.35
PAT Margin	(%)	4.05	3.00	2.91
ROCE	(%)	15.23	13.87	15.96
Total Debt/Tangible Net Worth	Times	0.81	0.74	0.76
PBDIT/Interest	Times	4.31	3.45	3.06
Total Debt/PBDIT	Times	2.61	2.67	2.22
Gross Current Assets (Days)	Days	156	163	145

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-22.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
21-Jul-2017	Cash Credit	Long Term	INR 13	ACUITE BBB+ / Stable
	Term Loan	Long Term	INR 3.25	ACUITE BBB+ / Stable
	Letter of Credit	Short Term	INR 2	ACUITE A2

*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	13.00	ACUITE A- / Stable (Upgraded)
Term loans	Not Applicable	Not Applicable	Not Applicable	1.89	ACUITE A- / Stable (Upgraded)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A2+ (Upgraded)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.36	ACUITE A- / Stable (Assigned)

Contacts

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About Acuité Ratings & Research:

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