

Press Release
Ion Healthcare Private Limited

January 21, 2020

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.18.25 Cr.
Long Term Rating	ACUITE A-/Stable (Reaffirmed)
Short Term Rating	ACUITE A2+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité 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. 18.25 crore bank facilities of Ion Healthcare Private Limited. The outlook is '**Stable**'.

About the Company

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. The company is engaged in the manufacturing of generic drugs, ointments, ophthalmic drops, syrups, injections and among other pharmaceutical products. The company has an installed capacity of 430 million tablets, 135 million capsules, 18 million ointments and 25 million syrups.

About the group

Scott Edil Group (SEG) comprises of Scott Edil Pharmacia Limited (SEPL), Ion Healthcare Private Limited (IHPL) 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 it's a 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), Ion Healthcare Private Limited (IHPL) and 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 continuous growth in operating income**

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 reported growth of ~5.06 per cent in FY2019 over FY2018. The revenue stood at Rs. 596.18 crore in FY2019 as against Rs. 567.49 crore in FY2018. Further, the group has achieved revenue of Rs.514.73 crore for 9MFY2020. 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 ~32 per cent of total revenues of the group in FY2019. 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 FY2019, contract manufacturing accounted for ~26 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 ~25 per cent to the total revenue in FY2019. SEG also exports its products which contributes to ~17 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 ~24 per cent of total sales till 9MFY2020.

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

- **Healthy financial risk profile:**

The group's financial risk profile is healthy supported by its healthy accruals and comfortable net worth vis-a-vis its overall debt levels. Group's tangible net worth stood healthy at Rs. 183.29 crore as on March 31, 2019 against Rs. 172.29 crore as on March 31, 2018. Further, the company has reported a bad debts write off of Rs.6.46 crore in FY2019. Acuite believes that the net worth of the group will remain in the range of Rs.200.00 crore to Rs.240.00 crore over the medium term backed by its healthy revenue growth and stable operating margins.

The leverage and coverage ratios continues to remain healthy marked by gearing (debt-equity) of 0.83 times on 31 March, 2019 as against 0.93 times on 31 March, 2018. The total debt of Rs.152.84 crore as on 31 March 2019 mainly comprises of long term borrowings of Rs. 27.66 crore, unsecured loans from directors/relatives of Rs. 8.34 crore and short term working capital borrowings of Rs.116.84 crore. The Total Debt-to-EBITDA of the group has improved to 4.06 times in FY2019 from 5.28 times in FY2018. This is mainly due to improvement in operating margins to 6.24 percent in FY2019 from 5.30 percent in FY2018. Further, the coverage indicators stood healthy marked by Interest coverage ratio (ICR) of 2.24 times for FY2019 as compared to 2.08 times for FY2018.

The company is undergoing a capital expenditure in last three years ended FY2019 to the tune of ~Rs.81.26 crore. In FY2019, the group generated net cash accruals of Rs.20.35 crore as against debt repayment obligation of Rs.8.74 crore. Acuite 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

- **Working capital intensive nature of operations**

SEG operates in a working capital intensive nature of business marked by Gross Current Asset (GCA) of 172 days in FY2019 compared to 166 days in FY2018. The increase GCA days are on account of high inventory of 94 days in FY2019 compared to 88 days in FY2018. The major reason for increase in inventory is due to bulk purchase of raw material and packing material in the last quarter of FY2019. However, debtor days stood at 67 days in FY 2019 as against 71 days in FY2018. Further, the average cash credit utilization for the past Eleven months ending November 2019 stood at ~75 percent. Acuite believes that the efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

- **Intense competition and regulated pharmaceutical industry**

The company 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 Factor

- Significant Improvement in revenue and operating margins.
- Any further deterioration in working capital

Material Covenants

None

Liquidity position: Adequate

The group has adequate liquidity marked by high net cash accruals to its maturing debt obligations. SEG generated cash accruals of Rs.20.35 crore in FY2019 as against CPLTD of Rs.8.74 crore for the same period. The cash accruals of the group are estimated to remain in the range of around Rs.23.00 crore to Rs. 28.00 crore during FY2020-22 against as against CPLTD in the range of Rs.3.70-5.70 crore for the same period. The group have intensive working capital operation marked by gross current asset (GCA) days of 172 days in FY2019. However, the average bank limit utilization stood at ~75 per cent for last Eleven months ending November 2019. The group maintains unencumbered cash and bank balances of Rs.0.63 crore as on 31 March 2019. The current ratio stands at 1.20 times as on 31 March 2019. Acuite believes the liquidity profile of the group will remain adequate on account of healthy net cash accruals as against its maturity debt and comfortable utilization levels.

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 along with healthy financial risk profile. The outlook may be revised to 'Positive' in case the group registers higher-than-expected growth in revenues while significant improvement in profit margins along with capital structure and coverage indicators. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected revenue and profit margins or deterioration in the capital structure or liquidity position owing to significant debt funded capex or incremental working capital borrowings.

About the Rated Entity - Key Financials

	Unit	FY19(Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	596.18	567.49
PAT	Rs. Cr.	15.47	3.69
PAT Margin	(%)	2.60	0.65
Total Debt/Tangible Net Worth	Times	0.83	0.93
PBDIT/Interest	Times	2.24	2.08

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entity - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

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

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
December 27, 2019	Cash Credit	Long Term	13.00	ACUITE A-(Indicative)
	Term Loan	Long Term	1.89	ACUITE A-(Indicative)
	Letter of Credit	Short Term	2.00	ACUITE A2+(Indicative)
	Proposed Bank Facility	Long Term	1.36	ACUITE A-(Indicative)
October 08, 2018	Cash Credit	Long Term	13.00	ACUITE A-/Stable

				(Upgraded)
	Term Loan	Long Term	1.89	ACUITE A-/Stable (Upgraded)
	Letter of Credit	Short Term	2.00	ACUITE A2+ (Upgraded)
	Proposed Bank Facility	Long Term	1.36	ACUITE A-/Stable (Upgraded)
July 21, 2017	Cash Credit	Long Term	13.00	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	3.25	ACUITE BBB+/Stable (Assigned)
	Letter of Credit	Short Term	2.00	ACUITE A2 (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE A-/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.89	ACUITE A-/Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A2+ (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.36	ACUITE A-/Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Head- Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Aditya Singh Ratings Analyst - Rating Operations Tel: 011-49731303 aditya.singh@acuite.in	

About Acuité Ratings & Research:

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